

GASB STATEMENT 34 IMPLEMENTATION TASKS

Categorizing Capital Assets As Shared Capital Assets or Specific to a Function for Depreciation Expense Reporting Requirements and Options

Task

Capital Assets must be identified and categorized as those that are specific to a particular function or those that are shared by multiple functions (or all functions) for allocation of depreciation expense and choosing from presentation options for the Statement of Activities.

Background

According to GASB Statement 34, depreciation expense of capital assets is reported in different ways depending on whether the asset can be specifically identified with a function or not. Some capital assets may be “shared assets” that serve a few or several functions (but not all) and would have the depreciation expense allocated among those functions. A capital asset such as an administrative building may serve essentially all functions but would not be required to have the depreciation expense allocated to all functions. Determining when “essentially all” functions are served is a matter of professional judgement. There are two options how this depreciation expense can be shown, as discussed later. The criteria for depreciation expense for general infrastructure assets is similar to that for assets that serve all functions. The depreciation expense for general infrastructure should not be allocated to any various functions, and also has two reporting options.

Requirements

To meet the reporting requirements for depreciation expense prescribed by GASB Statement 34, it will be necessary to identify and separate assets by category as:

1. Capital assets identified with a specific function
2. Capital assets “shared” by two or more (but not all) functions
3. Capital assets “shared” by essentially **all** functions (or those **not** identified with a specific function), or
4. General infrastructure assets

Once the assets are identified as one of the above, then the depreciation expense (on the depreciated assets) will be reported in the Statement of Activities as per the GASB requirements. For some of the categories, there are options for reporting the depreciation, while for others there is only one way of reporting the depreciation. The following is the requirements and options for each particular category:

1. For capital assets identified with a specific function, the related depreciation expense must be charged and reported as a direct expense of that function.
2. For capital assets “shared” by two or more (but not all) functions, the depreciation expense should be charged and reported as a direct expense of those specific functions based on a pro rata allocation.
3. For capital assets “shared” by **all** or “essentially all” functions, the related depreciation expense does not have to be reported as a direct expense of all of those functions. There are two options to report the depreciation expense. First, the expense may be presented as a separate line item in the Statement of Activities. With this presentation, there should be a clear indication on the face of the statement that this amount represents only unallocated depreciation expense and excludes direct depreciation expense of various programs. The second option is to include the expense in the general government function’s direct expenses.
4. For general infrastructure assets, there are two options for reporting the associated depreciation expense. It may be reported as a separate line item (with the same clear indication as in 3 above), or as a direct expense of the transportation function (the function that normally maintains those assets or reports capital outlays).

Recommendations

1. For item #1 above, capital assets identified with a specific function, the related depreciation expense must be charged and reported as a direct expense of that function. Therefore there is no recommendation to be made.
2. For item #2 above, capital assets “shared” by two or more (but not all) functions, the depreciation expense should be charged and reported as a direct expense of those specific functions based on a pro rata allocation. It is recommended that the allocation be based upon a relevant measure depending on the type of asset. Typically these assets that are buildings and the relevant measure in this case would be square footage per function. Another possibility would be a vehicle where the relevant measure might be mileage. Each asset would have to be analyzed to determine the functions served and the relevant measurement of use by the functions, and the related depreciation allocated based on a pro rata calculation using that asset’s relevant measurement.
3. For item #3 above, capital assets “shared” by **all** or “essentially all” functions, it is recommended that the related depreciation expense be presented as a separate line item in the Statement of Activities. With this option of presentation, there should be a clear indication on the face of the statement that this amount represents only unallocated depreciation expense and excludes direct depreciation expense of various programs.
4. For item #4 above, general infrastructure assets, it is recommended that the related depreciation expense be presented as a separate line item in the Statement of Activities. With this option of presentation, there should be a clear indication on the face of the statement that this amount represents only unallocated depreciation expense and excludes direct depreciation expense of various programs.

The basis for making these last two recommendations is that depreciation expense on capital assets shared by all functions and general infrastructure assets serves the entire government, not a particular function. To report this depreciation expense to a function would inappropriately overstate the “true” direct cost of running that function or program. The nature of depreciation expense is that it is an attempt to allocate and spread the cost of an asset over time, and is in effect out of the control of the operations of the function on a year by year basis. Therefore, it should not be included each year as a direct expense of that function. The actual capital outlay for capital assets and infrastructure is more indicative of the control and relationship of capital assets to functions, not the depreciation. Further, showing this depreciation expense as a separate line item will “highlight” the expense and in effect result in a more informative disclosure.

Identifying and categorizing those capital assets that are specific to a particular function or those that are shared by multiple functions (or all functions) will be difficult and it is not clear exactly how this will be done at this time. Procedures will need to be developed to analyze the inventory and schedules developed to capture the categorization of assets by function. A capital asset inventory system is being developed to capture broad classes of assets for capitalization and depreciation purposes. This system may be able to be developed to provide information about assets by function. The “shared” assets, which likely will be a small percentage of capital assets, would be the most difficult to categorize by function since multiple functions are involved.